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IN THE

# Supreme Court of the United States

October Term, 1946

No. 208

TRANSPARENT-WRAP MACHINE CORPORATION,
*Petitioner,*

*vs.*

STOKES & SMITH COMPANY,
*Respondent.*

## BRIEF FOR RESPONDENT.

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*Petitioner,*

*vs.*

STOKES & SMITH COMPANY,
*Respondent.*

## BRIEF FOR RESPONDENT.

Petitioner's brief labors futilely to disguise the simple, fundamental question that is presented by this case, namely:

*May the owner of a patent validly and enforceably impose as a condition to a license thereunder that the licensee shall irrevocably assign to the patent owner the patent rights to all inventions thereafter made by the licensee applicable to or suitable for use in connection with the subject matter of the licensed patent, so as thereby to enlarge and perpetuate the monopoly of the patent owner?*

Petitioner seeks to becloud this simple question by elaborate "build up" and discussion of alleged "joint venture" and "sale of business" so as to be enabled to present the specious queries appearing upon page 12 of its brief as constituting the "Questions Presented".

Regardless of how it may be characterized or approached, what here is involved is *a written agreement.* Reference to that agreement (R. 90) shows that it com-

prises merely *an exclusive license under patent rights*, and nothing else.*

Therefore, regardless of by what other names petitioner may seek to call it, the agreement on its face purports to do no more than *grant to licensee an exclusive license under patent rights* with the incident necessary to *all* exclusive licenses, namely, that it excludes future operations under the patent by everyone else, including the licensor.

It was held by the Court below (R. 312) that this patent license agreement contains a provision which is illegal and unenforceable for the reasons outlined at length in its opinion, particularly the impelling effect of public policy crystallized by the many "improper use of patent" decisions by this Court.

Therefore, without more ado we consider the agreement (R. 99-100), and particularly Paragraphs 11 and 12, which contain and explain the assignment requiring provision.

Even consideration of the specific wording of the agreement is unnecessary in view of the recognition and acceptance by the parties, and by both of the Courts below, of the intended purport and effect of these paragraphs.

Therefore, we start consideration of the merits of the case with the assertion that it is agreed by everyone that the license requires licensee (respondent) to assign to

* We append hereto as an "Appendix", a brief digest of the paragraphs of the agreement, and brief comments thereon, in the hope that it may prove to be helpful should the Court desire a short survey of the contents of the entire agreement. A review thereof will show conclusively that there is not there present a single attribute of "joint venture" or "sale of a business" that petitioner so desperately, but unwarrantedly asserts. Moreover, petitioner's demand for irrevocable assignment of respondent's patents, itself rebuts any presumption of a "joint" venture. Even if the transaction was either a "joint venture" or a "sale of a business", the *illegal* result would be the same.

licensor (petitioner) the patent rights to *all* inventions made by licensee (respondent) applicable to or suitable for use in connection with the Transwrap Packaging Machine which forms the subject matter of petitioner's patents.* Thus, not alone are all inventions which are improvements *to* the machine required to be assigned, but also all inventions *applicable* to or *suitable for use in connection with* the machine. The requirement covers the entire field.

Respondent contends, and the Court of Appeals below properly held, that such provision is illegal and unenforcible.

## Summary of Argument.

1. The owner of a patent may not validly and enforceably impose as a condition to a license thereunder that the licensee shall assign to the patent owner the patent rights to all inventions thereafter made by the licensee applicable to or suitable for use in connection with the subject matter of the licensed patent.

2. An agreement cannot be cancelled for an alleged breach comprising a refusal to comply with an illegal provision thereof.

3. This Court is requested to dispose finally of this litigation so as to avoid subjecting respondent to the inconvenience, expense and delay to which it otherwise will be subjected because of the unsettled condition in which the Court of Appeals has left the case.

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* Three patents are involved, all issued to the same patentee, Zwoyer, and directed to the *same* machine. Two of the patents are "divisions" of the third—they issued on applications divided from the first application.

# ARGUMENT.

## POINT I.

**The owner of a patent may not validly and enforceably impose as a condition to a license thereunder that the licensee shall assign to the patent owner the patent rights to all inventions thereafter made by the licensee applicable to or suitable for use in connection with the subject matter of the licensed patent.**

Paragraph 12 of the agreement (R. 100) defines the inventions or discoveries that might be made by respondent, and by the agreement required to be assigned to petitioner, as any

> "* * * improvement which is *applicable to the Transwrap Packaging Machine and suitable for use in connection therewith and applicable to the making and closing of the package*, but not to the filling nor to the contents of the package * * *".*

It is thus seen that the obligation to assign is not limited to an improvement *to* a particular machine † but on the contrary is broadly to *all* inventions which are "applicable to" and "suitable for use" in connection with the machine. Thus, the term "improvement" as used in Paragraph 12 is synonymous with "invention", and is not used in the sense in which it was used in the agreements before the Courts in the case cited in the footnote.

Therefore, respondent was required by the agreement to assign to petitioner the patent rights for *all* inventions

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* Emphasis ours throughout this brief.

† Cf. *Steiner Sales Co.* v. *Schwartz Sales Co.*, 98 F. (2d) 999, C. C. A. 10; *Mullins Mfg. Co.* v. *Booth*, 125 F. (2d) 660, C. C. A. 6.

and discoveries respondent made subsequent to the date of the license agreement, and during its term, in the general field of the subject matter of petitioner's patents, *regardless of whether or not those patent rights of respondent were wholly outside and independent of the monopoly of petitioner's Zwoyer patents.*

It is an elementary principle of patent law that every patent represents a monopoly separate and different from the monopoly represented by every other patent; and it now has been repeatedly held by this Court that the utilization, by its owner, of the monopoly of one patent for the purpose of creating or maintaining *another and different* monopoly, is illegal, as contrary to public policy, constitutes improper use of the patent which prevents its enforcement, and may, under some circumstances, even constitute violation of the anti-trust laws as an unreasonable restraint of competition.

In *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436, this Court said (at p. 456):

> "The patent law confers on the patentee a limited monopoly, the right or power to exclude all others from manufacturing, using, or selling his invention. Rev. Stat. Sec. 4884, 35 USCA Sec. 40. *The extent of that right is limited by the definition of his invention, as its boundaries are marked by the specifications and claims of the patent.* Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U. S. 502, 510, 61 L. Ed. 871, 876, 37 S. Ct. 416, LRA 1917E 1187, Ann. Cas. 1918A, 959. He may grant licenses to make, use or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege, save only that *by attaching a condition to his license he may not enlarge his monopoly and thus acquire some other which the statute and the patent together did not give.*

He may not, by virtue of his patent, condition his license so as to tie to the use of the patented device or process the use of other devices, processes or materials which lie outside of the monopoly of the patent licensed; Motion Picture Patents Co. v. Universal Film Mfg. Co., supra; Carbice Corp. v. American Patents Development Corp., 283 U. S. 27, 31, 75 L. Ed. 819, 821, 51 S. Ct. 334; Leitch Mfg. Co. v. Barber Co., 302 U. S. 458, 82 L. Ed. 371, 58 S. Ct. 288; cf. United Shoe Machinery Corp. v. United States, 258 U. S. 451, 462, 66 L. Ed. 708, 719, 42 S. Ct. 363; International Business Machines Corp. v. United States, 298 U. S. 131, 140, 80 L. Ed. 1085, 1091, 56 S. Ct. 701; *or condition the license so as to control conduct by the licensee not embraced in the patent monopoly.* Standard Sanitary Mfg. Co. v. United States, 226 U. S. 20, 57 L. Ed. 107, 33 S. Ct. 9; Interstate Circuit v. United States, 306 U. S. 208, 228-230, 83 L. Ed. 610, 621, 622, 59 S. Ct. 467 * * *".

And at page 459:

> *"The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another* * * * *than for the exploitation of an unpatented article* * * *."

Similarly, in its earlier cited case (*Carbice Corp. v. American Patents Development Corp.*, 283 U. S. 27), this Court said (at p. 32):

> "* * * courts deny relief against those who disregard the limitations sought to be imposed by the patentee *beyond the legitimate scope of its monopoly.*"

Also, in its earlier cited case (*Morton Salt Co. v. G. S. Suppiger*, 314 U. S. 488) Chief Justice STONE stated for this Court (at p. 492):

> "The grant to the inventor of the special privilege of a patent monopoly carries out a public policy

adopted by the Constitution and laws of the United States, 'to promote the Progress of Science and useful Arts, by securing for limited Times to • • • Inventors the exclusive Right • • • ' to their 'new and useful' inventions. United States Constitution, Art. I, § 8 Cl. 8, 35 U. S. C. A. 31. *But the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.*"

The foregoing statement was expanded in *United States* v. *Masonite Corporation* (1942), 316 U. S. 265, where this Court said (at p: 277):

> "*The owner of a patent cannot extend his statutory grant by contract or agreement. A patent affords no immunity for a monopoly not fairly or plainly within the grant. We have recently stated in Morton Salt Co.* v. *Suppiger Co.,* No. 49, decided January 5, 1942 (314 U. S. 488, *ante,* 363, 62 S. Ct. 42), that 'the public policy which includes inventions within the granted monopoly excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.' *Beyond the limited monopoly which is granted, the arrangements by which the patent is utilized are subject to the general law. Standard Sanitary Mfg. Co.* v. *United States, supra; Boston Store* v. *American Graphophone Co.,* 246 U. S. 8, 25; *Ethyl Gasoline Corp.* v. *United States, supra.*" •

The underlying principle common to all of the foregoing cases is that a patent owner may not use his patent to

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• See, also, *Nachman Spring-Filled Corp.* v. *Kay Mfg. Corp.,* 139 F. (2d) 781, C. C. A. 2, and *National Lock Washer Co.* v. *George K. Garrett Co.,* 137 F. (2d) 255, C. C. A. 3.

create, acquire or maintain a monopoly *other than and different from* the monopoly established and defined by his patent.

In the present case, petitioner has used its patents for the purpose of vesting in itself each and every future patent monopoly related to the field of its Zwoyer patents to which *respondent* might be entitled as a result of *respondent's* inventive ingenuity during the life of the agreement. This the petitioner legally may not do, and the provisions of Paragraphs 11 and 12 of the agreement which have that object and result are illegal and unenforceable, as the Court of Appeals correctly held.

In view of the foregoing decisions of this Court, the District Court of Michigan in *United States v. Parker Rustproof Co.*, 61 F. Supp. 805, also declared illegal a contractual provision of the same character as here is involved.

In that case the Court had before it, *inter alia*, an exclusive license agreement (asserted to be a "sale") between Parker Rustproof Company and American Chemical Paint Company, which agreement provided for an exclusive license from American to Parker under all of its patents and patent applications relating to rustproofing. The agreement further provided that American and all of its officers would, without further remuneration, assign to Parker any improvement that it or they invented or discovered in connection with the processes covered by the patents, or in their field, during the period of the agreement. In holding that agreement illegal as against public policy, the Court, after reciting what the owner of a patent legally might do, said (at p. 812):

> "He may enter into any kind of a contract to protect these rights *so long as he does not attach a condition to the contract which will have the effect of enlarging*

*his monopoly beyond that covered by the patent.* Ethyl Gasoline Corp. v. United States, 309 U. S. 436."

And further, in Conclusion of Law No. 9 (p. 813), the Court said:

> "The contract entered into with American Chemical Paint Company and the officers named is illegal and Parker is not entitled to any of the benefits of that illegal agreement."

Therefore, it now is the well-established rule of law, expressed by this Court in language incapable of being misunderstood or ignored, that a patent owner may not use his patent to create or maintain a monopoly *other than, different from, or outside of the scope of* the monopoly defined by the patent itself. He may not require, as a condition for a license under his patent, that he be vested with the licensee's future monopolies designed by the patent laws to be created as a reward for the licensee's future creative efforts.

Were the law otherwise the harmful consequences that would follow at once become apparent. In the first place, such an obligation imposed upon a licensee inevitably would minimize—if not eliminate—all inducement to the licensee to make inventive contribution to the art, thereby defeating the Constitutional purpose of the patent statute "to promote the Progress of Science and useful Arts". This inevitably would be the result in the present case, for it will be noted that respondent is required to pay a royalty of approximately 18¾% of the selling price of its machines (Paragraph 4, R. 92) *under respondent's own patents, throughout their lives, even after the expiration of peti-*

*tioner's Zwoyer patents.* This will be seen upon reference to Paragraph 11 of the agreement which provides (R. 99):

> "During the terms of this license all improvements to Transwrap Packaging Machines or *new inventions used or capable of use in connection therewith, whether made by the Licensor or the Licensee,* shall be deemed included within the terms of this license, without any *additional* consideration, or license fee or royalty being due to the Licensor for the use thereof."

And this paragraph of the agreement prescribes that it is only in fields *other* than in the field of Transwrap Packaging Machines, and with respect to types of machines *other* than those Machines, that respondent is permitted to use its own inventions

> "without the payment of any royalty to Licensor for such use."

Thus, it will be noted that the Zwoyer patent last to issue (2,047,243, R. 265) was granted on July 14, 1936, so that all three of them will have expired by July 14, 1953. As compared to this, the last of respondent's patents (Albertson 2,294,220, R. 221), will not expire until August 25, 1959, so that for six years after petitioner's patents will have expired respondent would be required to continue to pay the heavy tribute levied upon it, at the expense of the public, for the privilege of using the inventions respondent itself had made and patented. Indeed, this situation would continue perpetually as long as respondent continued to make patentable inventions in the field of the original expired Zwoyer patents.

It is no answer to this proposition that under the terms of the agreement respondent may have the right of termination at five-year intervals (Paragraph 7(b), R. 95), because,

as pointed out by the Court of Appeals, it at once will be apparent, according to the provisions of Paragraph 11, that in the event of termination by respondent, title to respondent's patents would be vested in petitioner, and respondent's right to operate thereunder would be expressly limited to fields and in connection with machines which were non-competitive with Transwrap Packaging Machines, *regardless of the fact that the Zwoyer patents, which purported to cover those machines, shall have expired.* And obviously, *any* machine which packages material would be competitive.

In the second place, the use of this device would permit the establishment and maintenance of a complete and perpetual monopoly in any art. Thus, conceivably, the owner of a patent could grant licenses to the principal and even to *all* the members of an industry upon the condition that the licensees assign to the patent owner the patent rights to all inventions subsequently made by them in that particular art. The inevitable result would be that the owner of the patent for one, and even a limited invention, ultimately would become an absolute monopolist—a czar in control of the entire art, arbitrarily dictating the terms on which the inventions of the art could be utilized, exacting tribute from all of the members of the industry by means of patents to the inventions of which the patent owner contributed nothing—all at the expense of the public and in subversion of the public policy so clearly stated by this Court in the cases above cited. And this monopoly would be enlarged and continued even after the expiration of the original patent, and as long as *any* patents might be granted in the art.

Additionally, this would enable the patent owner, in practical effect, to reserve or continue the monopoly of his patents after their expiration. That this may not be done

legally was made quite clear by this Court in *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249, wherein Chief Justice STONE, speaking for the majority of this Court, stated:

> "Hence any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, *whatever the legal device employed*, runs counter to the policy and purpose of the patent laws."

And the Court further said in that case:

> "They (the patent laws) do not contemplate that anyone *by contract or any form of private arrangement* may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly and which has been appropriated to the use of all. The rights to the invention are then no longer subject to private barter." (Matter in parenthesis ours.)

The principle that such monopolization of an art is illegal was likewise approved in the dissenting opinion of Justice FRANKFURTER in the *Scott Paper* case, *supra*. Justice FRANKFURTER cited with approval *United States* v. *Addyston Pipe & Steel Co.*, 85 F. 271. In that case (decided by the then Judge TAFT, speaking for the Circuit Court of Appeals for the Sixth Circuit) it was said (at p. 279):

> "From early times it was the policy of Englishmen to encourage trade in England, and to discourage those voluntary restraints which tradesmen were often induced to impose on themselves by contract. Courts recognized this public policy by refusing to enforce stipulations of this character. The objection to such restraints were mainly two. One was that by such contracts a man disabled himself from earning a livelihood with the risk of becoming a public charge, and deprived the community of the benefit of

his labor. The other was that *such restraints tended to give to the covenantee, the beneficiary of such restraints, a monopoly of the trade, from which he had thus excluded one competitor, and by the same means might exclude others.*"

Thus, if it is proper for a patent owner to exact the assignment of relevant inventions *in futuro* as a condition for granting a license under his patent to one licensee, he may do so with regard to *all* licensees—*to an entire industry.* This, we submit, fittingly illustrates the vice as well as the illegality of Paragraphs 11 and 12 of the agreement.

It is true that in some of the foregoing cases the issue was presented to the Court from the viewpoint of whether or not the patent owner, who had used his patent to obtain a monopoly different from and other than that of his patent, could enlist the aid of the Court in the attempted enforcement of the patent against an alleged infringer. However, the legal principle upon which all of the decisions were based was broader than the decision in each particular setting, as is made apparent by the non-patent cases cited in the opinions, and the uniform statement of the underlying law in all of the cases, in one form of expression or another, to the effect that *a patent owner may not use his patent to create or maintain a monopoly other than that defined by his patent.* Indeed, this Court stated in *Leitch Mfg. Co. v. Barber Co.* (1937) 302 U. S. 458, at page 463, that the doctrine applies

> "• • • *whatever the nature of the device by which the owner of the patent seeks to effect such unauthorized extension of the monopoly.*"

Nor is it material to the basic principle involved that in some of the foregoing decisions by this Court the patent owner was attempting to use his patent monopoly to effect

a limited monopoly in *unpatented commodities or materials.* In the *Ethyl Gasoline* case (309 U. S. 436) this Court said (at p. 459):

> *"The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another, * * *, than for the exploitation of an unpatented article * * *."*

Petitioner repeatedly urges in its brief that Paragraph 12 would have been legal had it not been included in a license agreement under its patents, and asserts that the Court below so held. The assertion begs the whole question presented by this case, and also misconstrues the reasoning of the Court of Appeals. If petitioner had not owned any patents under which it granted a license, there would not arise the question as to whether or not petitioner would have used *its patents* to enlarge and perpetuate its monopoly. If there were no patents involved, there would be absent the public interest which is always present in every agreement involving patents rights. As this Court said in *Pope Mfg. Co.* v. *Gormully,* 144 U. S. 224 (1891):

> "(1) Ordinarily the law leaves to parties the right to make such contracts as they please, demanding however, that they shall not require either party to do an illegal thing, and that *they shall not be against public policy or in restraint of trade."*

The majority opinion of the Court of Appeals (R. 320) assumes that a person might sell a business (as distinguished from a license under patents) on the condition that the purchaser should assign to it any improvement inventions it might make, *but the Court does not develop the point, nor consider whether such an agreement would be against public policy.* It tacitly assumed that in the *"hypothetical"* case it would not be. And whether it be or not,

the Court then developed the dispositive point that the acquirement by licensor of licensee's patents would place licensor in the position of *compelling* the licensee to buy *its own* improvements from the licensor.

As the Court said in speaking of the licensee (R. 321), after the Zwoyer patents expire

> "i. e., that after 1953 it might feel itself forced to renew just because the improvement patents were in the defendant's (petitioner's) hands. Moreover, that predicament might not end in 1959, the year when the last of the eleven patents in suit will expire; for these may not be the last improvements, and the plaintiff (respondent) may be forced, either to *cease all efforts to patent improvements, or to keep renewing the contract in order to escape the consequences of its own ingenuity.* For these reasons we hold that the promise to assign the improvement patents was illegal, and cannot be enforced."

In the decisions above relied upon, the licensor in each instance extended and enlarged his monopoly to cover (1) materials not mentioned in the claims of the patent; or (2) materials included as elements of combination claims; *in each case, by private contract, enlarging the monopoly granted by the Patent Office.*

The present case merely represents a transfer of such illegal practice from the goods and articles *to the patents themselves.* Instead of illegally bringing into the monopoly of the licensor's patents materials not covered by the patents, the licensor in this case seeks to enlarge and perpetuate its monopoly by requiring the assignment of subsequent patents of another, covering distinct, separate and different inventions. The consequence of this, upon analysis, becomes so shocking that Judge HAND was impelled to

point out (R. 320) that *the compulsion in such an instance is more absolute than in the decisions above relied upon.*

**The authorities cited by petitioner neither justify the illegal patent license provision nor support petitioner's arguments thereon.**

Neither of the two cases stressed by petitioner supports the argument for validity of the contract provisions here in question, as an analysis of those cases will show.

*Allbright-Nell Co.* v. *Stanley Hiller Co.,*
*72 F. (2d) 392, C. C. A. 7.*

In the first place, the *Allbright* case, though decided in 1934, subsequent to the decision by this Court in the *Carbice* case (283 U. S. 27, 1931), was long prior to the decisions of this Court which declared illegal *every* device sought to be used by the patent owner to expand or perpetuate his monopoly. Thus, the decision by this Court in the *Ethyl* case was rendered in 1940; the decisions in the *Morton Salt* and *B. B. Chemical* cases in 1942; and the decisions in the *Mercoid* cases in 1944.

Additionally, it is evident from reading the opinion in the *Allbright* case that the decision by this Court in the *Carbice* case was not called to the attention of the Court of Appeals or the doctrine thereof developed, because no reference thereto is made in the decision.

Finally, an examination of the record facts in that case reveals that the particular and peculiar facts thereof are so different from those here presented that the opinion in that case has no relevancy whatever to the case here before the Court; and petitioner's repeated assertion in its brief (*e. g.*, pp. 25, 26) that the *Allbright* case is "*on all fours*

*with the present case"* simply is not so, as now will be shown.

In the *Allbright* case, the Stanley Hiller Company granted the Allbright-Nell Company a license for a period of ten years from the date of the agreement, March 4, 1925, to manufacture and sell high pressure presses in accordance with two inventions of Hiller. There was no provision for earlier termination, and the licensee made none of the royalty payments provided for by the contract. On May 28, 1928, licensee notified the licensor that it considered the agreement terminated. Prior to that time, namely, on June 23, 1926, a *joint* application was filed for Letters Patent No. 1,828,968, which was obtained on October 27, 1931, by the *joint* inventors, Stanley Hiller, of the Stanley Hiller Company (licensor), and Arthur E. Ozouf, an engineer of the licensee, the Allbright-Nell Company.

The question presented to the Court was whether or not, upon termination of the agreement by the filing of the action in the case, the licensee should be required to assign to licensor *its* interest in the *joint* application of the Hiller and Ozouf patent. Licensor, through its *joint* inventor Hiller, obviously was possessed of rights equal to and coextensive with those acquired by the Allbright-Nell Company from *its joint* inventor Ozouf. Thus, *there was not and there could not have been involved in that case any consideration as to either an enlargment of licensor's monopoly or any perpetuation of it.*

The fact situation in the instant case is wholly different. Of the fourteen patents of respondent, none includes a *joint* invention made by an employee of licensor and an employee of licensee. Licensee's inventions were wholly developed by licensee's own engineers. In the *Allbright* case there was an apparent employer-employee relationship because

the Court relied upon the case of *Guth* v. *Minnesota Mining and Mfg. Company*, 72 F. (2d) 385 (C. C. A. 7th, 1934). In the latter case, Guth had signed an employee's agreement with provisions interpreted by the Court to require assignment of (1) all inventions which he might *at any time* make or conceive relating to the business of the company, its predecessor or successor; and (2) all inventions made or conceived *during the terms of his employment by the company*. As to the first provision, the Court found it clearly void as against public policy. The second provision was held lawful, but Guth was not required to execute a patent application because the company had not proved facts showing Guth's refusal to do so to be capricious or without merit.

Obviously, therefore, the decision in the *Allbright* case only superficially is relevant here.

*The Hartford-Empire Case,*
*323 U. S. 386; 324 U. S. 570 (1945)*

We believe petitioner's repeated assertion that this Court in the *Hartford-Empire* case approved an illegal provision of the character here involved is directly contrary to the fact. The question, among many others, presented to this Court in that case was whether Paragraph 29 of the decree of the District Court should be limited to glass-making machinery and glassware as defined in Paragraph 1 of the decree. This Court, *at the suggestion of the Government*, held that it should be so limited, and further stated: "the corporate appellants have amended or agreed to amend existing leases and licenses to remove all such restrictions as are enjoined" (323 U. S. at p. 423), which we interpret to mean that there had been or would be deleted from all of the agreements provision that im-

provements and inventions of the lessees or licensees covering licensed machinery or processes or methods shall become the exclusive property of the lessor. The action of this Court followed the specific recommendations contained in the Government's brief as to Paragraph 29 which included six subdivisions, including subparagraph (e), that is, to limit Paragraph 29 to machinery and methods used in the manufacture of glassware, as suggested in its brief on re-argument at page 245.

It is not the fact, as asserted by petitioner, that petitioner's selected quotations from the Government's brief recognized that a provision such as was enjoined by Paragraph 29 (e) was legal. To the contrary, the Government's brief expresses the opposite. In the Government's main brief, pages 225-226, it was said:

> "Finally, it should be noted that the standard form of license issued to all Hartford licensees requires the licensees to assign to Hartford all patents that cover improvements on the Hartford machines (see supra, pp. 168-169), and that many of the licenses require the acknowledgment of the validity of all of Hartford's future patents. *These attempts to control the future technology of the industry are significant both because they reveal appellants' desire to perpetuate control of the industry and because they betray the insincerity of Hartford's assertions that the combination did nothing more than assert the 'dominance' of Hartford's patents.*"

Again, on pages 263-264 of the brief, it was pointed out that Hartford and an arbitrator had both literally construed the license agreement, with respect to Hazel's own inventions, to require Hazel to pay royalties thereon. The Government then urged:

> "... The effect of these provisions, so construed, is to discourage Hazel from inventing machinery..

> *That the patent laws do not justify a requirement that one company pay royalties for the use of its own inventions to another concern needs no argument.*"

We believe the point is equally as plain in the present case.

Again, at page 377 of its brief, the Government said (referring to the device represented by the license provision):

> "This device has the effect of depriving licensees of their incentive to improve upon the leased machines and insures that no user of a machine will patent an improvement impairing the monopoly."

Therefore, we insist that there is no justification whatever for petitioner's assertion, made time and again in its brief, that this Court in its decision in the *Hartford-Empire* case sanctioned, as legal, a provision in a patent license agreement of the character here involved. On the contrary, we assert that this Court did not hold or even imply any such thing. No statement to that effect appears anywhere in the Court's opinion, and petitioner's assertion to the contrary is based merely on an assumption which we believe to be wholly unwarranted and erroneous.

When this Court stated (323 U. S. at p. 424) that paragraph 29 should be amended to permit any appellant,

> "to retain and refuse to license, to use and refuse to license, *or to license with restrictions*, any patent hereafter applied for or acquired except those applicable to feeders, formers, stackers and lehrs and processes and methods applicable thereto",

this Court, *neither by language nor intent*, affected in any way the illegality of subparagraph (c) of paragraph 29 of the decree of the District Court which had held illegal the patent license provision comparable to the one here before the Court. This would seem to be an inevitable conclu-

sion in view of the fact that an agreement by a licensee to assign (to licensor) licensee's patent rights to future inventions in no sense is a *"restriction"* on the license granted by the licensor, whereas many of the separately lettered subparagraphs of paragraph 29 of the District Court's decree were truly restrictions.

Rather than the language of this Court's decision in the *Hartford-Empire* case supporting petitioner's contention that this Court held subparagraph (e) to be *legal*, we assert that the language used by this Court intentionally *left undisturbed* the decree by the District Court of invalidity thereof because of the significant *omission* from such language of any word or words which could be read or interpreted as applying to that illegal provision.

In any event, the issue presented by the present case was not presented or decided by this Court in the *Hartford-Empire* case, and this is necessarily so because, as petitioner itself points out, the Government, obviously concerned only with violations of the Anti-Trust Laws, *suggested* the modification of the District Court's decree which this Court adopted. Obviously, therefore, there was no occasion for this Court to go beyond the *Government's* suggestion in that case.

The additional cases cited at pages 24 to 28 of petitioner's brief are readily distinguishable from the present case, and since none may be considered an authority supporting petitioner's position, only brief reference will be made thereto.

In the case of *Bunker* v. *Stevens*, 26 Fed. 245 (1885), an agreement was entered into which gave to Stevens the option to purchase a patent at the stipulated price of One Thousand Dollars, Stevens to have the right to manufacture for a year the tiltable chairs covered by the patent in order

to test their salability. In case he did not buy the patent, Stevens agreed he would assign to the patentees "all improvements upon the invention shown and described in said letters patent, *or relating thereto*, which he might make or patent." *The Court held Stevens need not assign improvements to a rocking chair.*

In *American Refining Company* v. *Gasoline Products Company*, 294 S. W. 967 (1927), Gasoline Products Company sued the defendant on a license agreement for the royalties provided therein. There was no dispute as to the facts, and judgment was entered for the plaintiff. Paragraph 8 of the license (p. 969), provided for the assignment of licensee's improvements on any of the patents, applications or inventions under which he was licensed. However, it was provided that "upon termination of this agreement, *the licensee shall have the shopright to use*, but not to assign, any of said improvements * * *."

*The question of whether or not licensee had to assign any improvements was not involved in the case.* The question was whether or not the presence of paragraph 8 made the agreement illegal, and, therefore, unenforceable. The Court ruled it did not, and on the analogy of the employer-employee relationship, the Court said it did not feel prepared to say the inclusion of the provision was itself invalid; certainly it did not excuse payment of royalties by licensee.

The case of *Baker Oil Tools, Inc.* v. *Burch*, 71 F. (2d) 31 (1934) is not relevant to any issue in this case. Under an agreement Baker had agreed to improve Burch's invention for which the latter had made an application for Letters Patent. Baker had his attorneys take over the prosecution of Burch's patent application. During the course of joint work by Baker and Burch, the invention was improved.

Instead of broadening the claims in Burch's pending application so that they would dominate the device with the improvements, Baker procured a patent on the improvements in his own name.

The Court remarked, page 36:

> "No reason is apparent why as broad protection could not have been secured for Burch; the casual client, as was secured for Mr. Baker, the regular client."

There was certainly bad faith on the part of Baker, and the Court ruled:

> "But Baker, having induced Burch to dismiss his own counsel and employ Baker's, may not profit by that circumstance at Burch's expense. Mr. Baker had no right to apply for a patent embodying the basic idea disclosed by Burch as improved in accord with their agreement."

Baker violated the confidence and trust reposed in him by Burch, and the Court, therefore, properly held that he should assign the improvement patent which contained the broad claims which should have appeared in Burch's patent.

In *Sinclair Refining Company* v. *Jenkins Petroleum Process Company*, 99 F. (2d) 9, Jenkins had built an experimental still which had been inspected by some of Sinclair's engineers. In order to test its practicability, arrangements were made for shipment of the still to Sinclair's plant under an agreement which provided that the inventor, Mr. Jenkins, would install the still and act in an advisory capacity throughout the entire course of the experimental work. For the use of the still, the agreement further provided that Sinclair should assign improvements to the Jenkins Company, the agreement reciting that the

"many short cuts and improvements necessarily • • • developed by the experts entrusted with the carrying out of the process" should "belong by right to their employer, and under the circumstances here involved, of course, to the Jenkins Petroleum Process Company, inasmuch as they are loaning you not only their experimental still but also the services of Mr. Jenkins, the inventor himself." Such an agreement was deemed necessary by Jenkins because his still had not successfully operated for Sinclair, and the purpose of the new experiments was to make it operate. As the Court said, page 18:

> "The provision that any improvements • • • should accrue to the Jenkins Company was obviously inserted to avoid overreaching of the plaintiff by the defendant through information gained in development work."

The Court set aside the jury's verdict on the ground that no evidence was offered to show that the improvements in dispute came from any knowledge obtained by the engineers or experts while the still was at Sinclair's plant, and that the jury had no basis for drawing any such inference. Since Sinclair had not played unfair with Jenkins (as Baker did with Burch in *Baker Oil Tools* v. *Burch, supra*), *the Court found no obligation to assign the improvements.*

*In none of the cases relied upon by Petitioner has a Court required a licensee to assign its wholly owned patents to a licensor because of a contractual obligation to do so imposed as a condition to the license.* They have not permitted a patent owner, solely by private contract, to center a double monopoly in its own hands and to use the "sanction of its patents to make sure that after they have expired" such a patent owner may continue to dominate

and to collect royalties from its licensee.* The decision in the *Allbright* case, as previously shown, is no exception.

It is submitted, therefore, that Paragraphs 11 and 12 of the patent license agreement here before the Court are invalid and unenforceable; and that the judgment of the Court of Appeals to that effect should be affirmed.

## POINT II.

**An agreement cannot be cancelled for an alleged breach comprising a refusal to comply with an illegal provision thereof.**

The Court of Appeals, though expressly requested in petitioner's request for rehearing (R. 327) to decide that licensee's failure to comply with illegal Paragraphs 11 and 12 comprised a breach which required that the license be terminated, refused to do so. However, that Court in its decision did not rule on whether or not the agreement to assign was a promise separable from the mutual promises of the grant of the license and the payment of royalties in return therefor. Upon this aspect the general rule prevails, namely, that where a contract contains a provision against public policy, the contract still may be enforced as to the remaining provisions if it is reasonable and proper so to do. That precise question was presented in *Guth* v. *Minnesota Mining and Mfg. Co., supra*, where the Court found void, as against public policy, that part of the agreement to assign for an *unlimited* time, yet found that the other promise to assign *while an employee of the company*

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* The quoted language is that of Judge HAND (R. 321).

was valid and enforceable. As the Court said (72 F. (2d) at p. 389):

> "In short, the contract is divisible. Some of the covenants are contrary to public policy and non-enforceable. Others are valid and enforceable in a court of equity (although courts are not required in all cases to grant the specific performance of such contracts)."

That decision is in accordance with the decision of this Court in *Oregon Steam Navigation Company* v. *Winsor*, 20 Wallace 64, where it was said:

> "It is laid down by Chitty as a result of the cases, and his authorities support the statement, 'that agreements in restraint of trade, whether under seal or not, are divisible; and, accordingly, it has been held that when such an agreement contains a stipulation which is capable of being construed divisibly, and one part thereof is void as being in restraint of trade, whilst the other is not, the court will give effect to the latter, and will not hold the agreement to be void altogether.'"

The Court of Appeals rightly decided that the contract provisions here at issue are illegal and unenforcible. Non-compliance with those illegal provisions does not warrant cancellation of the agreement as a whole, with the resultant possible damage to respondent.

At the time the license agreement was entered into, licensee had not made any inventions. The contract did not and could not obligate licensee-respondent to *invent* anything. *Invention is a fortuitous mental process.* Therefore, the fact that inventions *might or might not have been made* demonstrates the *severability* of the provisions relating thereto, with respect to the remaining provisions of the agreement.

Moreover, the evident satisfaction of the parties with the agreement over a long period of time (of the order of seven years) with knowledge by the licensor, within a week after their issuance, that licensee had taken out the first seven of its patents,* is further evidence of an understanding that Paragraphs 11 and 12 did not—and do not—go to the essence of the agreement (R. 58-59). A contention to the contrary would appear to be motivated by the approaching end of licensor's proper monopoly due to the approaching expiration of its own patents, or by its desire to take over the business the licensee has built up for itself, including the tremendous volume of orders on licensee's books which could not be and have not been filled because of World War II and the subsequent delays in obtaining delivery of materials.

Attention is also directed to the case of *Central New York Telephone and Telegraph Company* v. *Averill*, 199 N. Y. 128, in which the parties in August, 1902 entered into a written contract for rendition of telephone service in a hotel owned by Averill. The Company was to install the switchboard equipment, and it was to be used for a period of nine years. It was agreed that the switchboard should remain the property of the Company, and that no instrument or wires, other than those furnished by it, were to be placed or maintained in the hotel, and that the switchboard was not to be connected with an exchange or telephone line owned by anyone other than the Company. Averill had another Company make connections to his switchboard, raising the question as to whether or not Central Company had the right to cancel. In both the lower and upper courts it was held that the Company had *not* the right to cancel under a cancellation clause. In the lower Court it was held the exclusive clause was illegal, void, and an *inseparable*

* See Appendix, p. 36.

part of the consideration. *The Court of Appeals held the clause illegal but separable from the other parts of the agreement.* Accordingly, the Company could insist that the hotel should retain and continue to employ the Company's exchange, but Averill could connect it to the lines of another company.

The consequences of the illegal provisions here before the Court are the same whether the licensor is suing for cancellation or whether the licensee is defending its right under the license.

It follows, therefore, that the agreement here before the Court should not be allowed to be cancelled *by petitioner* because respondent refused to comply with illegal provisions thereof.

## POINT III.

**This Court is requested to dispose finally of this litigation so as to avoid subjecting respondent to the inconvenience, expense and delay to which it otherwise will be subjected because of the unsettled condition in which the Court of Appeals has left the case.**

In the concluding paragraph of the majority opinion of the Court of Appeals below (R. 322), respondent (*plaintiff* in the action) was remanded to the District Court for "trial" of legal issues *which were never raised by the pleadings of the cause or referred to in or supported by the evidence.* This extraordinary disposition of the case, leaving nothing determined except the illegality of Paragraphs 11 and 12 of the agreement, necessarily subjects plaintiff-respondent to the expense, inconvenience, and delay incident to a new "trial" involving issues not in the case. This

we submit to be wholly unjustified, not only as a matter of legal procedure, but also because all of the *facts* necessary to *a final determination* of the case are of record and are here before this Court. Therefore, respondent asks that this Court dispose of the case finally.

Respondent instituted the suit seeking not only a declaratory judgment of invalidity of Paragraphs 11 and 12 of the patent license agreement (R. 2), but also, because of threat by petitioner so to do, *asking an injunction permanently restraining petitioner from taking any action*

> "which would impair, damage or mitigate against the exclusive rights vested in plaintiff by the said agreement during its term and any and all extensions thereof" (R. 5).

Respondent believes that it is entitled to the injunctive relief it seeks in accordance with the principle announced by this Court in *Mercoid* v. *Minneapolis-Honeywell,* 320 U. S. 680 (1944). There the respondent was using a combination patent to control competition in the sale of a part of the patented combination. Mercoid brought suit alleging that Minneapolis-Honeywell had improperly used its patent. This Court held that Mercoid was entitled to *affirmative* relief, namely, an injunction restraining Minneapolis-Honeywell from threatening Mercoid and its customers with infringement suits. In fact, this Court went further, and said (p. 684):

> "It likewise follows that respondent may not obtain from a court of equity *any* decree which *directly or indirectly* helps it to subvert the public policy which underlies the grant of its patent."

If this Court concludes, as we urge that it should, that Paragraphs 11 and 12 of the patent license are illegal and unenforceable, we ask the Court to provide in its mandate to

the District Court that the permanent injunction prayed for by the complaint be granted, and petitioner's counterclaim be dismissed. Respondent is justly entitled to that relief as a consequence of the adjudication of invalidity and unenforceability of Paragraphs 11 and 12. The granting of such relief would bring this entire controversy to an end. Judgment would be final and dispositive of every issue raised.

## *Conclusion.*

***It is therefore submitted that the judgment of the Court of Appeals should be affirmed and the cause remanded to the District Court with instructions to grant respondent the injunctive relief prayed for in its complaint.***

Respectfully submitted,

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*Of Counsel.*

## APPENDIX.

*Paragraph 1* of the agreement is a typical conveyance to licensee of the *sole and exclusive license* to manufacture and sell Transwrap Packaging Machines throughout the United States, Canada and Mexico.

*Paragraphs 2 and 3* are conventional provisions for accounting.

*Paragraph 4* recites licensee's obligation to pay to the licensor a royalty on each Transwrap Packaging Machine sold by it; more particularly, for fixed sums with respect to three types of machines then in existence, and fixed amounts for machines later to be produced, *with provisions for arbitration if the parties are unable to agree;* and finally, provisions for the calculation of the royalty and profits *by the arbitrators,* the formula consisting of the division of the sum arrived at after including licensee's manufacturing cost, its overhead, a 25% manufacturing profit and 20% of the net sales price to cover sales expense. This formula, far from representing a *joint adventure,* was to be resorted to *only in the event the parties could not agree as to royalties.*

By *Paragraph 5* of the agreement the licensor agrees, *when requested by the licensee,* to give the benefit of its experience in the manufacture and sale of Transwrap Machines, but the licensor makes it clear that it is not to be called upon "to an extent which will unreasonably encroach upon the time of the Licensor's engineers" and further, that the licensee is to pay all travelling and hotel expenses of licensor's engineers.

As is customary in exclusive licenses, the licensee in *Paragraph 6* agrees to use its best efforts to manufacture,

market, promote sales and sell Transwrap Packaging Machines. There is no provision in this paragraph, or elsewhere in the agreement, that the licensee *shall* engage in research or other experimental work looking to the development of patentable improvements.

The license, by *Paragraph 7*, is to end on June 30, 1947 unless notice is given one year prior to that date of licensee's option of a renewal for a further period of five years. Though not of record, because given after the Record was closed, licensee gave the requisite notice under this paragraph.

Under *Paragraph 8*, licensee, *if it wanted to*, could purchase such of licensor's jigs, fixtures and patterns as it desired to use in connection with its future manufacture, or for record, or experimental purposes, or otherwise. Licensee *could*, if it desired, also buy any Transwrap Machines or parts at prices to be agreed upon. In the same Paragraph (8(c)) it is provided that licensor *could*, in the event of termination of the license prior to the expiration of ten years, purchase *such as it might want* of licensee's jigs, fixtures and patterns at the cost to licensee, less depreciation at the rate of 20% per annum. Thus, after five years all of licensee's jigs, fixtures and patterns could be acquired by licensor without the transfer of any cash, since the cost thereof would be fully depreciated at the end of five years.

*Paragraph 9* takes care of the possibilities of patent infringement suits brought against the Transwrap Machine or suits to be instituted in the name of licensor, or of licensee, by way of affirmative action against others.

*Paragraph 10* contains the agreement of both parties as to the validity of the patents of the agreement.

The first sentence of *Paragraph 11,* in dispute in this case, places all of licensor's and licensee's inventions used or capable of use in connection with Transwrap Packaging Machines within the terms of the license without *additional* consideration to the licensor. As to this paragraph (which it termed Article XI) the Court of Appeals said (R. 314):

> "Article XI is obscure, but we read the second sentence as meaning that *the plaintiff (licensee) promised to give the defendant (licensor) an exclusive license in all territories not covered by the contract, under any patents upon improvements to the Zwoyer machine, so far as these should relate to making and closing the package.*" (Parentheses added.)

That second sentence excludes from the agreement any new inventions "applying to the filling or to the contents of the package, made, owned or controlled by the Licensee".

At the time the agreement was entered into, on June 23, 1937, the licensee had not made any inventions applicable to or suitable for use in connection with the Transwrap Packaging Machine, and there was no assurance or guarantee that it ever would. Thus, Paragraph 11 (and also Paragraph 12) was concerned with *future* events *which might or might not occur.*

*Paragraph 12* has been fully considered elsewhere in this brief.

That licensor was not going out of business is made evident from *Paragraph 13* which binds the licensee to fill and complete any orders received from the licensor for shipment to or installation in the plants of the Borden Company, the factory of Henry Heide, Inc., and the territories not covered by the license agreement; *i. e., all of the rest of the world except the U. S., its possessions, the Dominion of Canada and the Republic of Mexico.* The price which

licensee could charge licensor for such orders is likewise fixed.

*Paragraph 14* relates to licensor's right to terminate the agreement upon "default" by licensee, as that term is defined and enumerated in subparagraphs (a) to (h) inclusive.

*Paragraphs 15 to 18* inclusive, are more or less conventional, and include a provision (Paragraph 16), for arbitration "in the event that any dispute, controversy, or claim shall arise between the licensor and the licensee out of or relative to this license agreement or the breach thereof," including any question under the provisions of Paragraph 14 as to whether or not an event of default has occurred, and providing that the same "shall" be settled by arbitration in accordance with the terms of the American Arbitration Association.

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Prior to entering into the license agreement, licensee (see R. 275) had been in the business of manufacturing machinery

> "used in connection with the following materials, either for covering the paper boxes in which the material is placed; *the filling, sealing or wrapping of the cartons containing the material;* or the filling of the tin cans or other containers for the various products."

The list of materials is long, and illustrates the broad field in which the licensee was interested prior to entering into the manufacture of the Transwrap Packaging Machine which turned out to be particularly applicable for the packaging of a wide variety of products, including a great many of the items listed (R. 275-7) which are in the free-flowing

category, such as powdered materials, candy, cereals, cracker meal, etc., with respect to which licensee had sold other packaging machinery.

Shortly after the execution of the license agreement on June 23, 1937, namely, on July 28, 1937 (R. 233-5), a comprehensive list of various improvements was disclosed to the licensor by the licensee with the specific suggestion that the least that should be done was

> "get on record with the patent attorney the various possible ideas which might form the basis of future packages."

Later in the same year (1937) another letter was written (R. 235) reminding Mr. Zwoyer that patent protection should be obtained on a photo-electric cell registry device which had been suggested. The subsequent conversations with regard to these various suggestions were very unsatisfactory from the standpoint that licensor indicated no interest in them. Mr. Zwoyer testified (R. 77) that in a discussion with Mr. Maxfield (now deceased) Mr. Zwoyer had said he felt that there would be a slim chance of obtaining patent protection on some of the ideas.

Mr. Zwoyer reluctantly admitted (R. 70-76, particularly p. 77) that some of the patents here in controversy were disclosed by the aforesaid letters of 1937. After the aforesaid conversations and letters the licensee forwarded these ideas to its own attorney, and patent applications were filed, the first on Nov. 27, 1937. This application matured into patent 2,160,367 of May 30, 1939, and this patent (R. 138-141) covered the method of filling containers with a conditioning gas or vapor, as was fully disclosed in the postscript of the letter of July 28, 1937 (R. 235).

Licensee thereafter had other applications for Letters Patent prepared and filed by its own attorneys. Mr.

Zwoyer and licensor knew what was going on in licensee's plant. He "exercised the right of going through the plant" at all times (R. 78), and he was "familiar with all the changes that were made on the machine whenever a machine was built and sold to a customer." He further knew (R. 78) that it was Mr. Maxfield's opinion that applications for patents should be filed on his suggestions. Since nothing was ever done about his suggestions, it was only natural for Maxfield and his employer to proceed with the filing of Letters Patent, which they did.

In a letter to licensor dated February 27, 1939 (R. 281-286) licensee repeatedly referred to the filing of patent applications (R. 283, fol. 848), (R. 284, fol. 850), (R. 285, fol. 853), (R. 286, fol. 857).

*Licensor's patent attorneys made a practice of weekly examination of the Official Gazette of the U. S. Patent Office and advised the licensor as to all patents relating to the Transwrap machine immediately after their issuance.* It is admitted by counsel for licensor (R. 59, fol. 176) that the patent attorney for petitioner had directed to petitioner's attention the first seven of the fourteen which licensor claimed should be assigned to it under the agreement.

Further mention of licensee's Maxfield patent 2,154,521 was made in a letter to licensor of September 17, 1942 (R. 280). *The licensor had known all along—probably since 1937, but certainly since February, 1939, that licensee was applying for and obtaining patents on its own inventions;* but for obvious reasons petitioner tries to convey the idea to this Court, without the direct statement, which could not truthfully be made, that *petitioner did not know that respondent was applying for or obtaining patents until January, 1944* (*e. g.*, see petitioner's brief, p. 5).